

**REPORT OF THE AUDIT OF THE
MERCER COUNTY
SHERIFF**

**For The Year Ended
December 31, 2003**



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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable John Trisler, Mercer County Judge/Executive
Honorable Ralph Anderson, Mercer County Sheriff
Members of the Mercer County Fiscal Court

The enclosed report prepared by Carpenter, Mountjoy & Bressler, PSC, Certified Public Accountants, presents the statement of revenues, expenditures, and excess fees of the County Sheriff of Mercer County, Kentucky, for the year ended December 31, 2003.

We engaged Carpenter, Mountjoy & Bressler, PSC to perform the audit of this statement. We worked closely with the firm during our report review process; Carpenter, Mountjoy & Bressler, PSC evaluated the Mercer County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in cursive script, reading "Crit Luallen".

Crit Luallen
Auditor of Public Accounts

Enclosure



**REPORT OF THE AUDIT OF THE
MERCER COUNTY
SHERIFF**

**For The Year Ended
December 31, 2003**

EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE MERCER COUNTY SHERIFF

**For The Year Ended
December 31, 2003**

Carpenter, Mountjoy & Bressler, PSC has completed the Mercer County Sheriff's audit for the year ended December 31, 2003. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting described in Note 1.

Financial Condition:

Excess fees decreased by \$10,318 from the prior year, resulting in excess fees of \$20,250 as of December 31, 2003. Revenues increased by \$62,438 from the prior year and expenditures increased by \$72,756.

Report Comment:

- The Sheriff's Office Lacks An Adequate Segregation of Duties

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities.

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The Honorable John Trisler, Mercer County Judge/Executive
Honorable Ralph Anderson, Mercer County Sheriff
Members of the Mercer County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the County Sheriff of Mercer County, Kentucky, for the year ended December 31, 2003. This financial statement is the responsibility of the County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Sheriff's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the County Sheriff for the year ended December 31, 2003, in conformity with the regulatory basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated December 13, 2004, on our consideration of the County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The Sheriff's Office Lacks an Adequate Segregation of Duties

The Honorable John Trisler, Mercer County Judge/Executive
Honorable Ralph Anderson, Mercer County Sheriff
Members of the Mercer County Fiscal Court

This report is intended solely for the information and use of the County Sheriff and Fiscal Court of Mercer County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these interested parties.

Respectfully submitted,

A handwritten signature in black ink that reads "Carpenter, Mountjoy & Bressler, PSC". The signature is written in a cursive, flowing style.

Carpenter, Mountjoy & Bressler, PSC

Audit fieldwork completed -
December 13, 2004

MERCER COUNTY
RALPH ANDERSON, COUNTY SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2003

Revenues

State - Kentucky Law Enforcement Foundation Program Fund	\$	23,166
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State Fees For Services:

Sheriff Security Service	\$	20,337
Fees		28,134
		48,471

Circuit Court Clerk:

Fines and Fees Collected		2,040
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Fiscal Court		70,300
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County Clerk - Delinquent Taxes		5,967
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Commission On Taxes Collected		254,155
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Fees Collected For Services:

Auto Inspections	\$	4,072
Accident and Police Reports		379
Serving Papers		19,150
Carrying Concealed Deadly Weapon Permits		4,040
		27,641

Other:

Conveying Convicts	\$	2,438
In Lieu of Taxes		2,330
Fees on Taxes		28,069
Advertising Fees		3,250
Fees Collected for Fiscal Court		9,325
Insurance Proceed		3,555
Miscellaneous		1,132
		50,099

Interest Earned		3,234
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Borrowed Money:

State Advancement		160,000

Total Revenues	\$	645,073
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The accompanying notes are an integral part of this financial statement.

MERCER COUNTY
 RALPH ANDERSON, COUNTY SHERIFF
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2003
 (Continued)

Expenditures

Operating Expenditures and Capital Outlay:

Personnel Services-

Deputies' Salaries \$ 273,121

KLEFPF Gross Salaries 21,700

Contracted Services-

Advertising 415

Materials and Supplies-

Office Materials and Supplies 5,347

Officer's Supplies 4,976

Communication Equipment 9,090

Uniforms 2,618

Auto Expense-

Gasoline 25,333

Maintenance and Repairs 17,109

Other Charges-

Dues 652

Postage 4,566

CCDW 2,640

Data Processing 2,377

Training 270

Payments to Fiscal Court 9,325

Extradition 1,927

Miscellaneous 3,051

Capital Outlay-

Office Equipment 1,961

Vehicles 8,520 \$ 394,998

Debt Service:

State Advancement 160,000

Total Expenditures \$ 554,998

The accompanying notes are an integral part of this financial statement.

MERCER COUNTY
RALPH ANDERSON, COUNTY SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
For The Year Ended December 31, 2003
(Continued)

Net Revenues	\$ 90,075
Less: Statutory Maximum	<u>68,307</u>
Excess Fees	\$ 21,768
Less: Training Incentive Benefit	<u>1,518</u>
Excess Fees Due County for 2004	\$ 20,250
Payment to Fiscal Court - March 5, 2004	<u>20,000</u>
Balance Due Fiscal Court at Completion of Audit	<u><u>\$ 250</u></u>

The accompanying notes are an integral part of this financial statement.

MERCER COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2003

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

Kentucky Revised Statute (KRS) 64.820 directs the fiscal court to collect any amount, including excess fees, due from the County Sheriff as determined by the audit. KRS 134.310 requires the County Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2003 services
- Reimbursements for 2003 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2003

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

MERCER COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2003
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems.

This is a multiple-employer public retirement system that covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 6.34 percent for the first six months of the year and 7.34 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record.

Note 3. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, and (c) an official record of the depository institution. These requirements were met, and as of December 31, 2003 the Sheriff's deposits were fully insured or collateralized at a 100% level with collateral of pledged securities held by the Sheriff's agent in the Sheriff's name.

Note 4. Lease

The office of the County Sheriff was committed to a lease agreement with Bamill, Inc. for an all-in-one copier/fax/scanner. The agreement requires a monthly payment of \$180 to be completed on June 30, 2004. The total balance of the agreement was \$1,080 as of December 31, 2003.

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COMMENT AND RECOMMENDATION

MERCER COUNTY
RALPH ANDERSON, COUNTY SHERIFF
COMMENT AND RECOMMENDATION

For The Year Ended December 31, 2003

INTERNAL CONTROL - REPORTABLE CONDITIONS AND MATERIAL WEAKNESSES:

Lacks Adequate Segregation Of Duties

We conclude that the internal control structure in the Sheriff's office lacks a proper segregation of duties. There is a limited staff that is responsible for the receipting, disbursing, recording and reporting duties. The Sheriff has statutory authority to assume the roles as custodian of monetary assets as well as recorder of transactions and preparer of financial statements. The Sheriff has decided to limit the number of personnel responsible for these duties and accepts the risk for a lack of adequate segregation of duties.

Compensating controls could be put into place to overcome the lack of segregation of duties. These controls could include the performance of surprise cash counts by the Sheriff, reconciliation of monthly reports to source documents and the receipts and disbursements ledgers by the Sheriff or another deputy, and examination of the monthly bank reconciliation by the Sheriff. If these compensating controls are put into place, the Sheriff should document the duties performed by initialing source documents.

Sheriff's Response: Comments understood in reference to segregation of duties

PRIOR YEAR:

The Sheriff lacked an adequate segregation of duties in the prior year. This was not corrected.

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REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Honorable John Trisler, Mercer County Judge/Executive
The Honorable Ralph Anderson, Mercer County Sheriff
Members of the Mercer County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Mercer County Sheriff for the year ended December 31, 2003, and have issued our report thereon dated December 13, 2004. This was a special report on the County Sheriff's financial statement prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Mercer County Sheriff's financial statement for the year ended December 31, 2003, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Mercer County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. Reportable conditions are described in the accompanying comment and recommendation

- The Sheriff's Office Lack an Adequate Segregation of Duties

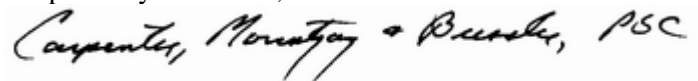
Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink that reads "Carpenter, Mountjoy & Bressler, PSC". The signature is written in a cursive, flowing style.

Carpenter, Mountjoy & Bressler, PSC

Audit fieldwork completed -
December 13, 2004

